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Review of the efficiency of the administrative and financial functioning of the United Nations

Programme budget for the biennium 2008-2009

Joint Inspection Unit

United Nations system staff medical coverage

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith, for the consideration of the General Assembly, his comments and those of the United Nations System Chief Executives Board for Coordination, on the report of the Joint Inspection Unit entitled "United Nations system staff medical coverage" (see A/62/541).

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Summary

The Joint Inspection Unit report, entitled "United Nations system staff medical coverage" (see A/62/541), examines the issues surrounding medical insurance coverage provided to staff members and notes the dramatic increase in cost to organizations associated with health insurance. Through a series of recommendations directed at executive heads, legislative bodies and the General Assembly, the Joint Inspection Unit seeks increased system-wide harmonization to reduce the costs of health insurance and to address funding issues related to after-service health insurance.

The present note presents the views of United Nations system organizations on the recommendations provided in the report of the Joint Inspection Unit. The views of the system have been consolidated on the basis of inputs provided by the member organizations of the United Nations System Chief Executives Board for Coordination (CEB). While CEB members appreciate the detailed survey of the health insurance schemes in place across the system, many believe that the subject matter deserves a more rigorous actuarial and financial analysis in order to ascertain the impact of a common system model, as proposed in the report. Many organizations note that they already report after-service health insurance liabilities and have begun to put measures in place to fund these, questioning the value of a common pool. They also agree to the need for cost-containment measures, and many noted that reviews of health insurance already take place.

I. Introduction

1. The Joint Inspection Unit report, entitled "United Nations system staff medical coverage" (see A/62/541), focuses on the issues surrounding medical insurance coverage provided to staff members, and observes two patterns that have developed over the past 30 years: (a) that the costs of providing health insurance have grown dramatically in that time; and (b) the continuing diversity of insurance schemes in place throughout the system. The report examines the history of the health insurance provided to staff members and, within the context of several recommendations, seeks more uniformity across the system. The report also explores the issues surrounding the financing and liability inherent in the after-service health insurance programme along with recommendations to agencies for staff health cost containment measures.

II. General comments

2. Organizations welcome the report and appreciate its comprehensive nature, which includes a detailed overview of the diverse health insurance schemes implemented by organizations across the United Nations system, including comparative analyses of annual cost, premium sharing, coverage and benefits. In general, organizations believe that the report contains some interesting ideas and suggestions that merit further exploration, even though some proposals might not meet with unanimous agreement.

3. However, they also indicate that the report did not go far enough in several aspects of its analysis. First, organizations note that the report suggests moving the system towards a common health insurance scheme and they take the view that the importance of the subject matter justifies development of complete actuarial and financial projections, structured organization per organization (with each of the schemes included under the single "United Nations" heading treated separately), in order to accurately ascertain the impact of a common system model on each organization.

4. Second, many organizations took issue with the statement in the executive summary referring to the "soaring cost of medical coverage" followed by statistics which state:

> Between 1975 and 2004, there was a 122 per cent increase in the number of contributors to the staff health insurance schemes. The cost of providing health insurance grew by 1,387 per cent for the same period, and the cost per person increased from US$ 540 to US$ 3,620 between 1975 and 2004.

5. Responding to this statement, several organizations note that a review of the data indicates that the nominal growth of medical costs over the 30-year period of the review (1975-2004) was approximately 6.5 per cent per year and, therefore, was no different from the average medical inflation costs for the general population at major headquarters duty stations during a similar period. In constant dollars, using the United States consumer price index as a deflator, the average cost increase would only be 2.1 per cent per year. Although any cost increase is undesirable, organizations believe that the Joint Inspection Unit should avoid such expressions as "soaring cost" as they are not commensurate with the cost increase observed during the period when calculated in real terms, net of inflation. Furthermore, they note that the growth in the cost of health insurance coverage, taken out of cost-of-living or cost-of-healthcare context, emerge as a United Nations-system phenomenon rather than as a broader reality impacting many national social security schemes. Although the increase in the cost of health insurance coverage is undeniable, external benchmarking would improve the system's ability to objectively assess the situation within the United Nations system.

6. CEB members also noted that the executive summary cites "several main factors" which "continue to affect the increase in costs of the staff health insurance schemes: the rising cost of medical benefits worldwide [...]; the ageing of the international community demanding accrued services [...]; the systematic increase in the frequency of access to medical care; and currency fluctuations". However, organizations questioned how a common system approach could contribute to reducing the effect of these main factors on escalating health care costs and note that a full actuarial and financial study would be required to determine how a common system approach would improve any individual organization's ability to mitigate the financial effects of workforce demographics, ageing, shifts in morbidity and mortality, geographic location, evolving medical technology, etc.

III. Specific comment on recommendations

Recommendation 1

The legislative bodies of the United Nations system organizations should formally recognize staff health insurance as an important integral part of the common system. They should request the International Civil Service Commission (ICSC) to undertake periodic reviews with a view to making recommendations to the General Assembly.

Recommendation 2

In this regard, the General Assembly should establish, initially, an ad hoc advisory body to assist ICSC in formulating broader principles, policies and standards for staff health insurance schemes. The advisory body should be composed of representatives of Member States, officials of the United Nations system organizations, elected representative(s) of the staff, and elected representative(s) of the retirees, and be assisted by experts in health and insurance matters from the private sector.

Recommendation 3

The legislative bodies of each United Nations system organization should request their respective executive heads to harmonize the existing health insurance schemes, initially at the level of the duty station, and in the longer term across the common system, relating to scope of coverage, contributions and benefits and to establish periodic reporting on health insurance related information to the legislative bodies.

7. As the report brings these three recommendations under one heading, many organizations responded to them as a group. While organizations generally support policy coherence within the United Nations system, including a common system approach to employee benefits, and while there exists across the system broad support for these recommendations, many organizations stated that the data provided in the report does not allow for a fully informed position regarding the level of support for these recommendations.

8. Regarding recommendation 1, organizations agree with the notion that staff health insurance should form "an important integral part of the common system", however they did not express universal acceptance that ICSC should conduct "periodic reviews" on the subject. Many organizations note that this issue is already currently under consideration by individual organizations in the context of implementation of the International Public Sector Accounting Standards and in the context of the human resources network and the medical offices' network.

9. For many of these same reasons many organizations did not see the need to have ICSC either establish another advisory body to undertake periodic reviews or look into medical insurance issues. Organizations generally agree with the sense of recommendation 2, that these policies should be reviewed, although they expressed concern about whether the proposed establishment of yet another ad hoc advisory body to ICSC for that purpose would be the best way of doing this, especially as its implications on United Nations governance are unclear.

10. Recommendation 3, requesting the executive heads of organizations to begin harmonizing health insurance schemes, elicited a variety of responses from organizations, many noting the challenges in achieving this even at a modest level. Some, especially the Rome-based organizations, noted that harmonization had already been accomplished on a limited basis. Many others expressed a concern that it would be very difficult to achieve even in the long term considering that the health insurance scheme of each organization depends on various factors such as the history of the organization, varying medical needs based on the nature of the mandate and the function of the organization, cost-effectiveness of the individual scheme and the medical practices and legal medical requirements in the country of the duty station.

11. In particular, many organizations do not view the establishment of a single fund as the only option for achieving system-wide equity with respect to health insurance, i.e., for achieving equal access to a defined set of covered health-care related goods and services for all active and retired staff members. Such equal access can be achieved either within the framework of a single fund or through separate funds operating on the basis of a minimum set of common rules. Furthermore, those organizations feel that the report does not discuss the various options for harmonizing insurance schemes, which range from a common (minimum) "basket" of goods and services with a common reimbursement schedule, to a "cafeteria" option within a common funding policy. Certain determining aspects of health insurance, such as service levels, proximity, governance and operating costs, have also not been addressed in the report.

Recommendation 4

The legislative bodies of each United Nations organization should request their respective executive heads to undertake periodic actuarial studies based on a uniform system-wide methodology to determine the extent of accrued after-service health insurance liabilities and to disclose the liabilities in the financial statements.

12. CEB members generally accept the concept of periodic actuarial studies and many indicate that they already perform these regularly. They note that with the development and implementation of the Institute for International Public Sector Accounting Standards, the system will begin to calculate and disclose this liability in a more uniform manner.

Recommendation 5

The legislative bodies of each organization should:

(a) Request their respective executive heads to put forward proposals for funding the after-service health insurance liabilities;

(b) Provide adequate financing to meet the liabilities and establish a reserve for this purpose.

13. Organizations across the system recognize the need to fund all liabilities related to after-service health insurance and many indicate that they already have programmes in place to accomplish this. Some organizations note that their after-service health insurance liabilities are already fully funded, while others have put in place mechanisms, implemented over the past several years, to calculate and fund

this liability. Most indicated they would welcome proposals from either their legislative bodies or the General Assembly on creative ways to cover this liability.

Recommendation 6

The United Nations General Assembly should establish a common fund to pool the reserves (existing and to be established), which should be invested in a manner similar to the assets of the United Nations Joint Staff Pension Fund.

14. Whereas some CEB members agreed with this recommendation in principle, many urged the General Assembly, to which this recommendation is addressed, to consider several important factors before proceeding with a common reserve fund, including the demographics of the staff and retiree base, the current funding status and the annual contribution policy across agencies. All of these factors will likely continue to be quite different, from agency to agency, in the medium term and therefore pooling the investments in one common fund may not provide the optimal asset/liability ratio for each agency. Furthermore, organizations note that they would need to weigh their current investment strategy and returns against any proposed alternative before agreeing to participate. Therefore, while organizations generally look favourably upon system-wide initiatives, they cannot judge the merits of this recommendation until the rules for a pooled investment have been made clearer.

Recommendation 7

Executive heads should implement cost containment measures proactively in their respective organizations and ensure that these measures are taken in a coordinated manner among the various organizations in a duty station.

15. Organizations of the system note that cost containment is an ongoing or regular exercise, with regular review of existing health insurance schemes to ensure its cost-effectiveness. However, organizations express difficulty with some of the measures mentioned in the report. For example, the suggestion that organizations provide a "referral service" to their staff members requires further clarification as, depending on the intent of the report, the suggestion either does not provide any economies of scale if the intent is to provide an optional referral service, or contravenes staff regulations regarding freedom of choice if the intent is to act as a "gatekeeper" and direct staff to specific providers. Another measure noted by organizations requiring further clarification is the suggestion of establishing in-house pharmacies, since the cost of hiring pharmacists and the risks associated with maintaining a stock of medicines, including the possible liabilities in the handling of drugs, does not seem to be justified. In general, organizations note that enhanced organizational delivery of health services will necessarily reduce the cost of health insurance premiums, which is the primary focus of the report.